




**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 1, 1999

**MEMORANDUM FOR:** Robert J. Shapiro  
Under Secretary for Economic Affairs

**FROM:**   
Johnnie E. Frazier  
Acting Inspector General

**SUBJECT:** *ESA and BEA FY 1998 Financial Statements*  
Audit Report No. FSC-10863-9-0001

The attached report presents an unqualified opinion on the fiscal year 1998 Consolidated Financial Statements for the Economic and Statistics Administration (ESA) and the Bureau of Economic Analysis (BEA). The unqualified opinion is especially noteworthy considering the significant changes as mandated by OMB Bulletin No. 97-01, which required the preparation of four new financial statements. Also provided are reports on ESA's and BEA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by ESA and BEA management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities for each office, bureau, and activity of the Department. The independent certified public accounting firm of Urbach Khan & Werlin PC (UKW) was contracted to audit ESA's and BEA's Consolidated Balance Sheet and related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of UKW, the financial statements present fairly, in all material respects, the financial position of ESA and BEA as of September 30, 1998 and the net cost of their operations; changes in net position; budgetary resources; and reconciliation of net costs to obligations of ESA and BEA for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the UKW audit indicate that ESA and BEA and its provider of accounting services have been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

While UKW's Report on Internal Controls contains no material weaknesses, it identifies two reportable conditions in BEA's and ESA's internal control structure:

- Controls surrounding the Financial Accounting and Reporting System need improvement. (Repeat Condition)
- Annual leave discrepancies continue to exist.

As a result of a FY 1997 general controls review performed by the OIG at the Office of Computer Services (OCS), several issues were identified relating to the controls surrounding the mainframe system on which the Financial Accounting and Reporting System (FARS) application is processed. UKW continues to consider these issues to be a reportable condition to ESA and BEA because FARS processes the financial information used in preparing ESA's and BEA's financial statements. Since ESA and BEA management is not responsible for the general controls surrounding FARS, recommendations were directed to OCS management in the OIG Report No. FSD-10021-8-0001, *Information Systems General Controls Review of OCS*.

Annual leave discrepancies continue to exist between the Department of Commerce's Time and Attendance system and the National Finance Center's payroll system, and reconciliations between the two systems are not being performed after each pay period. Certain differences appeared to be unreconciled for several months. Although the number and value of the discrepancies are not material to the financial statements, this issue has been identified for the last several years. Lack of adequate reconciliation of these differences could result in ESA and BEA reporting inaccurate payroll expenses in their financial statements.

UKW identified one instance of material non-compliance in its Report on Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. FARS does not maintain sufficient commonality of data elements and transactions processing to ensure timely, accurate and effective financial reporting, as required by Federal guidance.

Our office reviewed a draft version of the ESA and BEA overviews to their FY1998 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993 that requires government entities to collect and report information on their performance in meeting goals and objectives. ESA and BEA incorporated many of our prior year suggestions to improve the clarity and conciseness of the overview. Consequently, this resulted in an improved discussion of its activities and results. However, ESA and BEA should provide additional discussion on performance goals, such as a comparison of actual results to benchmarks and a discussion of variances.

We informally provided ESA and BEA management with a memo containing our observations and recommendations on the draft overview. Management was responsive, and also indicated that ESA and BEA plan to make additional revisions to strengthen the overviews for FY 1999 and beyond. The OIG realizes that improving the overview is an iterative process. We encourage ESA and BEA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan can be found in Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal.

If you wish to discuss the contents of this report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by ESA and BEA during the audit.

Attachment

cc: Linda J. Bilmes  
Acting Chief Financial Officer and  
Assistant Secretary for Administration

J. Steven Landefeld  
Director  
Bureau of Economic Analysis

John McGuffin  
Comptroller  
National Institute of Standards  
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